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**CUMBERLAND FALLS HIGHWAY
WATER DISTRICT**

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
DECEMBER 31, 2012 AND 2011**

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion & Analysis	3-6
Statements of Net Position	7
Statements of Revenue, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to the Financial Statements	10-14
Independent Auditors' Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	15-16
Schedule of Findings and Responses	17

SUMMERS, MCCRARY & SPARKS, P.S.C.

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Cumberland Falls Highway Water District
Corbin, KY

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Cumberland Falls Highway Water District, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Cumberland Falls Highway Water District as of December 31, 2012 and 2011, and the changes in financial position, and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, KY
April 30, 2013

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

This section of the Cumberland Falls Highway Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2012 and 2011. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2012

- The District's net position decreased by \$106,087 or 2.4 percent from \$4,379,898 to \$4,273,811.
- Gross profit from operations increased by \$85,446 or 10 percent from \$886,792 to \$972,238.
- Operating expenses increased by \$58,103 or 5.9 percent from \$989,333 to \$1,047,436.
- Capital contributions to the District decreased by \$8,877 or 12 percent from \$72,337 to \$63,460.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Position identify the District's revenues and expenses for the fiscal years ended December 31, 2012 and 2011. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position provide an indication of the District's financial condition and also indicate the financial condition of the District during the last fiscal year. The District's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

**Table 1
Condensed Statement of Net Position**

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$1,402,659	\$1,422,216	(\$19,557)	(1%)
Capital assets	5,284,628	5,404,214	(119,439)	(2%)
Total Assets	<u>6,687,434</u>	<u>6,826,430</u>	<u>(138,996)</u>	<u>(2%)</u>
Long-term debt	2,365,055	2,400,132	(35,077)	(1%)
Other liabilities	48,568	46,400	2,168	5%
Total Liabilities	<u>2,413,623</u>	<u>2,446,532</u>	<u>(32,909)</u>	<u>(1%)</u>
Net position invested in capital assets	2,952,462	3,029,208	(76,746)	(2%)
Net position restricted for debt service	315,799	388,974	(73,175)	(19%)
Unrestricted net position	<u>1,005,550</u>	<u>961,716</u>	<u>43,834</u>	<u>5%</u>
Total Net Position	<u><u>\$4,273,811</u></u>	<u><u>\$4,379,898</u></u>	<u><u>(\$106,087)</u></u>	<u><u>(2%)</u></u>

As the above table indicates, total assets decreased by \$138,996 from \$6,826,430 to \$6,687,434 during the fiscal year ended December 31, 2012. This decrease primarily resulted from a decrease in capital assets of \$119,439 resulting from depreciation of the assets, and from a decrease in cash from operations of \$26,852.

Table 1 also indicates a decrease of \$106,087 in net position, from \$4,379,898 to \$4,273,811 for fiscal year ending December 31, 2012. As indicated above, this was due to a decrease in capital assets.

The Statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which affect the change in net position. As the information in Table 2 indicates, income before capital contributions was a loss of \$169,547 and capital contributions were \$63,460, realizing a net change in assets of (\$106,087).

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

**Table 2
Condensed Statement of Revenues, Expenses
and Changes in Net Position**

	2012	2011	\$ Change	% Change
Gross Profit	\$972,238	\$886,792	85,446	10%
Nonoperating revenues	6,484	18,550	(12,066)	(65%)
Total Revenues	<u>978,722</u>	<u>905,342</u>	<u>73,380</u>	8%
Depreciation expense	241,560	246,324	(4,764)	(2%)
Other operating expenses	805,876	743,009	62,867	8%
Nonoperating expenses	100,838	103,302	(2,469)	(2%)
Total Expenses	<u>1,148,269</u>	<u>1,092,635</u>	<u>60,398</u>	6%
Income before capital contributions	(169,547)	(187,293)	17,746	9%
Capital contributions	63,460	72,337	(8,877)	(12%)
Changes in net position	(106,087)	(114,956)	8,869	8%
Beginning net position	4,379,898	4,494,854	(114,956)	(3%)
Ending Net position	<u>\$4,273,811</u>	<u>\$4,379,898</u>	<u>\$(106,087)</u>	(2%)

Table 2 indicates that the Districts total Gross Profit increased by \$8,869 resulting from increased water sales. Total expenses increased by \$60,398 due to an increase in operating expenses.

CAPITAL ASSETS

As of December 31, 2012, the District's investment in capital assets totaled \$5,284,775, a decrease of \$119,439. A comparison of the District's capital assets over the past two years is presented in Note 3 of the financial statements.

The district was awarded a \$40,000 grant from the Kentucky Infrastructure Authority for the construction of the Goldburg valve station. The grant proceeds were received and expended in 2012.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

LONG TERM DEBT

As of December 31, 2012, the District had \$2,332,313 in outstanding revenue bond debt. The reduction in long-term debt obligations of \$42,693 is from principal payments made during 2012.

Additional information on the District's long-term debt is provided in Note 4 of the financial statements.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the CFHWD at 6929 Cumberland Falls Highway, Corbin Ky.

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 364,246	\$ 147,066
Certificate of Deposits	502,093	672,950
Accounts receivable	143,345	147,478
Inventory - materials and supplies	62,075	50,485
Prepaid expenses	12,749	12,730
Total Current Assets	<u>1,084,508</u>	<u>1,030,709</u>
RESTRICTED CASH AND CASH EQUIVALENTS	315,799	388,974
UTILITY PLANT		
Nondepreciable capital assets	73,147	73,147
Depreciable capital assets, net of depreciation	5,211,628	5,331,067
Net Utility Plant	<u>5,284,775</u>	<u>5,404,214</u>
OTHER ASSETS		
Unamortized debt expense, net	2,352	2,533
Total Other Assets	<u>2,352</u>	<u>2,533</u>
 TOTAL ASSETS	 <u><u>\$ 6,687,434</u></u>	 <u><u>\$ 6,826,430</u></u>
 LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ -	\$ -
Accrued taxes	5,568	4,900
Revenue bonds payable - due within one year	43,000	41,500
Total Current Liabilities	<u>48,568</u>	<u>46,400</u>
NONCURRENT LIABILITIES		
Revenue bonds payable - due in more than one year	2,289,313	2,333,506
Customer deposits	75,742	66,626
Total Noncurrent Liabilities	<u>2,365,055</u>	<u>2,400,132</u>
 TOTAL LIABILITIES	 2,413,623	 2,446,532
 NET POSITION		
Invested in capital assets, net of related debt	2,952,462	3,029,208
Restricted for debt service (Expendable)	315,799	388,974
Unrestricted	1,005,550	961,716
 TOTAL NET POSITION	 <u>4,273,811</u>	 <u>4,379,898</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 6,687,434</u></u>	 <u><u>\$ 6,826,430</u></u>

The Accompanying Notes Are An Integral Part Of These Financial Statements
See Auditors' Report

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Water sales	\$ 1,546,092	\$ 1,454,245
Other income	<u>31,406</u>	<u>49,986</u>
Total Operating Revenues	1,577,498	1,504,231
COST OF SALES		
Water purchases	<u>605,260</u>	<u>617,439</u>
Gross Profit from Operations	972,238	886,792
OPERATING EXPENSES		
Advertising	3,072	2,558
Commissioner fees	10,800	11,100
Contractual services:		
Maintenance	19,545	2,935
Operation supplies and materials	50,420	43,510
Office supplies and other expenses	44,353	41,574
Salaries and wages	339,369	333,584
Employee benefits	205,134	177,071
Professional services	36,405	38,598
Transportation expenses	23,186	24,242
Purchased power	27,897	30,237
Insurance	28,775	28,055
Depreciation	241,560	246,324
Bad debt expense	14,282	7,222
Other taxes	<u>2,638</u>	<u>2,323</u>
Total Operating Expenses	<u>1,047,436</u>	<u>989,333</u>
Operating Income (Loss)	(75,198)	(102,541)
NONOPERATING REVENUE (EXPENSE)		
Interest income	6,484	8,589
Interest expense	(100,652)	(103,121)
Gain (Loss) on disposal of assets	-	9,961
Amortization of debt expense	<u>(181)</u>	<u>(181)</u>
Net Nonoperating Revenue (Expense)	<u>(94,349)</u>	<u>(84,752)</u>
Income (Loss) before Contributions	(169,547)	(187,293)
CAPITAL CONTRIBUTIONS	<u>63,460</u>	<u>72,337</u>
CHANGE IN NET POSITION	(106,087)	(114,956)
NET POSITION		
Beginning of year	4,379,898	4,494,854
End of year	\$ <u><u>4,273,811</u></u>	\$ <u><u>4,379,898</u></u>

The Accompanying Notes Are An Integral Part Of These Financial Statements
See Auditors' Report

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,581,631	\$ 1,497,193
Cash payments to employees for services	(339,369)	(333,584)
Cash payments to suppliers for goods and services	<u>(1,082,708)</u>	<u>(1,028,582)</u>
Net cash provided (used) by operating activities	159,554	135,027
Cash flows from noncapital financing activities:		
Change in customer deposits	9,116	(7,390)
Cash flows from capital and related financing activities:		
Additions to capital assets	(122,121)	(144,716)
Proceeds from asset disposals	-	9,961
Capital contributions	63,460	72,337
Principal paid on debt	(42,693)	(40,920)
Interest paid on debt	<u>(100,652)</u>	<u>(103,121)</u>
Net cash provided (used) in capital and related financing activities	(202,006)	(206,459)
Cash flows from investing activities:		
Interest received	<u>6,484</u>	<u>8,589</u>
Net Increase (decrease) in cash and cash equivalents	(26,852)	(70,233)
Cash and cash equivalents, Beginning of Year	<u>1,208,990</u>	<u>1,279,223</u>
Cash and cash equivalents, End of Year	<u>\$ 1,182,138</u>	<u>\$ 1,208,990</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (75,198)	\$ (102,541)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	241,560	246,324
(Increase) decrease in operating assets:		
Accounts receivable	4,133	(7,038)
Inventory	(11,590)	5,552
Prepaid expenses	(19)	(44)
Increase (decrease) in operating liabilities:		
Accounts payable	-	(7,446)
Accrued taxes	668	220
Accrued payroll taxes	<u>-</u>	<u>-</u>
Total cash provided (used) by operating activities	<u>\$ 159,554</u>	<u>\$ 135,027</u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 866,339	\$ 820,016
Restricted cash and cash equivalents	<u>315,799</u>	<u>388,974</u>
Total cash and cash equivalents	<u>\$ 1,182,138</u>	<u>\$ 1,208,990</u>
Supplemental disclosure of cash flow information:		
Noncash capital and related activities:		
Amortization of premium on issuance of debt	\$ 181	\$ 181

The Accompanying Notes Are An Integral Part Of These Financial Statements
See Auditors' Report

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES DISCLOSURES
DECEMBER 31, 2012 AND 2011**

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Cumberland Falls Highway Water District, a special district pursuant to KRS Chapter 74, was created by the Whitley County Fiscal Court on February 1, 1967, upon petition by area residents, to provide water services to the residents of the area specified in the petition. The District is accounted for as a governmental enterprise fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

Basis of Presentation and Accounting, and Measurement Focus

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The District follows the provisions of the GASB No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the District. Operating revenues and expenses result from providing water services to customers. All other revenues and expenses are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Significant Accounting Policies

Cash and Cash Equivalents: Cash and cash equivalents are considered by the District to be highly liquid investments with a maturity of three months or less when purchased.

Accounts Receivable: The District uses the direct write-off method for accounting for bad debts, which management feels is not materially different from the allowance method. Accounts written off as uncollectible during the years ended December 31, 2012 and 2011 totaled \$14,282 and \$7,222, respectively. Receivables outstanding in excess of ninety days at December 31, 2012 and 2011 totaled \$700 and \$8,198, respectively.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES DISCLOSURES
DECEMBER 31, 2012 AND 2011

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory: Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

Utility plant: Utility plant and equipment are stated at cost and depreciated over their useful lives using the straight-line method. The estimated useful lives are as follows:

Structures, reservoirs, pumps and other improvements	10 - 40 years
Office furniture, fixtures and equipment	3-10 years
Motor Vehicles	5 years

Restricted Cash and Cash Equivalents: The District has designated bank accounts per the loan resolution covenants for debt service, depreciation fund and meter deposits.

Amortization of Debt Expense: Debt expense on the Waterworks Refunding and Improvement Revenue Bond of 1986, Series A and Series B, originally totaling \$13,799, is being amortized over the life of the outstanding bonds. Amortization expense was \$181 and \$181 for 2012 and 2011, respectively.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position: Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.

Unrestricted - This component of net position consists of net position that does not meet the definitions of "restricted" or "invested in capital assets, net of related debt."

Fair Value Measurements: The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, customer deposits and bonds approximates fair value because of the relative terms and short maturities of these financial instruments.

CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES DISCLOSURES
DECEMBER 31, 2012 AND 2011

NOTE 2 - COMPOSITION OF CASH

The District maintains its cash accounts with banks in Corbin, Kentucky. The balance of the accounts over Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 is collateralized by securities held by the bank or by its agent in the name of the District and totaled \$417,934 and \$779,621 at December 31, 2012 and 2011 respectively. Following is an analysis of cash at December 31, 2012 and 2011.

	December 31, 2012		December 31, 2011	
	Bank Balance	Book Balance	Bank Balance	Book Balance
Unrestricted	\$909,794	\$866,339	\$848,356	\$820,016
Restricted	318,729	315,799	391,316	388,974
Total	<u>\$1,228,523</u>	<u>\$1,182,138</u>	<u>\$1,239,672</u>	<u>\$1,208,990</u>

NOTE 3 – UTILITY PLANT

Details of utility plant and related allowance for accumulated depreciation at December 31, 2012 and 2011 are as follows:

	Balance December 31, 2011	Additions	Deletions	Balance December 31, 2012
Nondepreciable Capital Assets:				
Land and Land Rights	\$73,147	\$0	\$0	\$73,147
Total Nondepreciable	<u>73,147</u>	<u>0</u>	<u>0</u>	<u>73,147</u>
Depreciable Capital Assets:				
Pumping Plant	112,564	68,885	0	181,449
Transmission and Distribution Plant	7,797,928	53,236	0	7,851,164
General Plant	452,088	0	0	452,088
Total Depreciable	<u>8,362,580</u>	<u>122,121</u>	<u>0</u>	<u>8,484,701</u>
Total Utility Plant	8,435,727	122,121	0	8,557,848
Less: Accumulated Depreciation	<u>(3,031,513)</u>	<u>(241,560)</u>	<u>0</u>	<u>(3,273,073)</u>
Net Utility Plant	<u>\$5,404,214</u>	<u>\$(119,439)</u>	<u>\$0</u>	<u>\$5,284,775</u>

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES DISCLOSURES
DECEMBER 31, 2012 AND 2011**

NOTE 4 - BONDS PAYABLE

The Waterworks Revenue Bonds, Series 1996, provide for the partial financing of the cost of construction of extension, additions, and improvements to the existing system. The interest rate of the Bonds is 4.50%. The maturity date is 01/01/35.

The Waterworks Revenue Bonds, Series 2001, provide for the partial financing of the cost of construction of extension, additions, and improvements to the existing waterworks system. The interest rate of the Bonds is 4.50%. The maturity date is 01/01/41.

The Waterworks Revenue Bonds, Series 2007, provide for the partial financing of the cost of construction of extension, additions, and improvements to the existing waterworks system. The interest rate of the Bonds is 4.125%. The maturity date is 01/01/44.

All bonds are secured by a lien on the gross income and revenues derived from the operation of the system sufficient to pay principal and interest on the bonds, as well as a statutory mortgage lien on the water utility plant and all properties therewith, pursuant to the Kentucky Revised Statutes, and also a first lien on all water purchase contracts owned by the District. The U.S. Department of Agriculture's Rural Economic Community Development (RECD), formerly Farmers Home Administration, requires the District to prepay monthly the required amounts of interest, due January 1 and July 1, and the required amounts of principal due January 1, according to bond redemption schedules.

The annual requirements for debt service as of December 31, 2012, are as follows:

Year Ending	Interest	Principal	Total
2013	100,207	43,000	143,207
2014	98,347	45,000	143,347
2015	96,401	47,000	143,401
2016	94,366	49,000	143,366
2017	92,246	51,000	143,246
2018-2022	426,155	291,000	717,155
2023-2027	357,250	362,000	719,250
2028-2032	271,686	448,500	720,186
2033-2037	168,867	453,903	622,770
2038-2042	78,800	400,740	479,540
2043-2044	8,874	141,170	150,044
Total	\$1,793,199	\$2,332,313	\$4,125,512

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
NOTES DISCLOSURES
DECEMBER 31, 2012 AND 2011**

NOTE 4 - BONDS PAYABLE (Continued)

The following is a summary of bonds payable for the year ended December 31, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within one year
1996 Issue	598,403	0	15,711	582,692	15,500
2001 Issue	445,740	0	7,886	437,854	7,500
2007 Issue	1,330,863	0	19,096	1,311,767	20,000
Total Debt	<u>\$2,375,006</u>	<u>\$0</u>	<u>\$42,693</u>	<u>\$2,332,313</u>	<u>\$43,000</u>

Interest expense paid during 2012 and 2011 was \$100,652 and \$103,121, respectively.

NOTE 5 – RETIREMENT PLAN

The District adopted a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) effective October 1, 2006. The SIMPLE IRA is available to employees who are expected to receive at least \$5,000 in compensation during the year and who received at least \$5,000 in compensation during the prior year. The District matches participants' contributions to the Plan up to 3% of the participants' compensation. The District's contributions to the plan for 2012 and 2011 totaled \$10,240 and \$13,686, respectively.

NOTE 6 – SUBSEQUENT EVENTS

As required by FASB ASC 855-10-50-1, the Company has evaluated subsequent events through April 30, 2012, the date the financial statements were available to be issued.

NOTE 7 – NEW PRONOUNCEMENTS

During the year, the District implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, introduced and defined in GASB Concepts Statement No. 4. This statement amends the net assets reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure net position, rather than net assets.

SUMMERS, MCCRARY & SPARKS, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

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KENTUCKY SOCIETY
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SUSAN A. LACY, CPA
DEBORAH L. MAYNARD, CI
RYAN R. LASKI, CPA

LAURENCE T. SUMMERS
1961-1992

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commissioners
Cumberland Falls Highway Water District
Corbin, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Cumberland Falls Highway Water District as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise District's basic financial statements and have issued our report thereon dated April 30, 2012.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (12-01 and 12-02)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Cumberland Falls Highway Water District in a separate letter dated April 30, 2013.

Cumberland Falls Highway Water District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

The purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Summers, McCrary & Sparks, PSC

Lexington, KY 40509
April 30, 2013

**CUMBERLAND FALLS HIGHWAY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012**

Finding 12-01:

Condition: The financial statements were not adjusted to actual and not converted to full accrual in accordance with generally accepted accounting principles, GAAP, (capital assets, accounts payable, deposits, bonds, prior year adjustments).

Criteria: Financial statements must be prepared in accordance with GAAP.

Effect: Financial statements issued that are not in accordance with GAAP.

Cause: The organization's personnel lack the expertise specific to preparing the financial statements in accordance with GAAP.

Response: Due to the complexity of GAAP and audit standards, we rely on the audit for year-end adjustments that meet the required GAAP standards.

Finding 12-02:

Condition: The District lacks proper internal control over financing reporting of their year-end financial statements to be issued in accordance with generally accepted accounting principles.

Criteria: Financial statements must be prepared in accordance with GAAP.

Effect: Financial statements issued that are not in accordance with GAAP.

Cause: The organization's personnel lack the expertise specific to preparing the financial statements in accordance with GAAP.

Recommendation: The organization should consider electing a board member with the necessary knowledge to be able to prepare the financial statements in accordance with GAAP. Another alternative would be to contract with another CPA to take responsibility of the financial statements in accordance with GAAP.

Response: Due to the complexity of GAAP and audit standards this is not worth the effort required. The financial statements are more than adequate to reveal the financial stability of the organization and the reporting of operating results. We rely on the audit for year-end financial statements that meet the required GAAP standards.